

**YANBU NATIONAL PETROCHEMICAL COMPANY
(YANSAB) (A SAUDI JOINT STOCK COMPANY)**

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

**AUTITORS' REPORT TO THE SHAREHOLDERS OF
YANBU NATIONAL PETROCHEMICAL COMPANY - YANSAB
(A SAUDI JOINT STOCK COMPANY)**

Scope of review

We have audited the accompanying balance sheet of Yanbu National Petrochemical Company (YANSAB) ("the Company") - A Saudi Joint Stock Company - as at 31 December 2010 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion

In our opinion, the financial statements taken as a whole:

- i) present fairly, in all material respects, the financial position of the company as at 31 December 2010 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the company's articles of association in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young



Ahmed I. Reda
Certified Public Accountant
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21 Safar 1432 H
26 January 2011

Jeddah

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2010

	Note	31 December 2010 SR'000	31 December 2009 SR'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	789,735	605,631
Murabaha commodity	4	656,250	-
Advances to suppliers and other receivables	5	2,079,786	864,932
Inventories	6	901,051	737,817
TOTAL CURRENT ASSETS		4,426,822	2,208,380
NON-CURRENT ASSETS			
Property, plant and equipment	7	18,425,721	18,575,835
Intangible assets	8	274,250	309,595
Other non-current assets		36,674	30,165
TOTAL NON-CURRENT ASSETS		18,736,645	18,915,595
TOTAL ASSETS		23,163,467	21,123,975
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	9	256,327	275,809
Accruals and provisions	10	1,058,091	487,932
Current portion of term loans	11	724,624	915,717
Current portion of Ijara financing arrangements	12	222,285	-
TOTAL CURRENT LIABILITIES		2,261,327	1,679,458
NON-CURRENT LIABILITIES			
Term loans	11	8,040,542	11,540,500
Term loan from majority shareholder	13	2,870,154	2,155,200
Obligations under Ijara financing arrangements	12	2,553,102	-
Employees' terminal benefits		97,853	81,107
TOTAL NON-CURRENT LIABILITIES		13,561,651	13,776,807
TOTAL LIABILITIES		15,822,978	15,456,265
SHAREHOLDERS' EQUITY			
Share capital	14	5,625,000	5,625,000
Statutory reserve	15	181,308	14,030
Retained earnings		1,534,181	28,680
TOTAL SHAREHOLDERS' EQUITY		7,340,489	5,667,710
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		23,163,467	21,123,975

The attached notes 1 to 22 form part of these financial statements.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2010

	<i>Note</i>	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Sales		5,821,530	-
Cost of sales		(3,651,964)	-
Gross profit		2,169,566	-
General and administration expenses	16	(123,072)	(29,213)
INCOME FROM MAIN OPERATIONS/PRE-OPERATING (LOSS)		2,046,494	(29,213)
Financial charges		(376,113)	-
Other income		42,687	-
INCOME/(LOSS) BEFORE ZAKAT		1,713,068	(29,213)
Zakat	17	(40,289)	-
NET INCOME/(LOSS) FOR THE YEAR		1,672,779	(29,213)
Weighted number of shares Outstanding (in thousands)		562,500	562,500
Earnings/(loss) per share			
Attributable to income from main operations/pre-operating (loss) for the year- SR		3,638	(0.052)
Attributable to net income/(loss) for the year – SR		2,974	(0.052)

The attached notes 1 to 22 form part of these financial statements.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	<i>Note</i>	31 December 2010 SR'000	31 December 2009 SR'000
OPERATING ACTIVITIES			
Net income/(loss) before zakat		1,713,068	(29,213)
Adjustments for:			
Provision for employees' terminal benefits		26,971	13,665
Depreciation		799,521	-
Amortisation		35,345	-
		<u>2,574,905</u>	<u>(15,548)</u>
Changes in working capital:			
Inventories		(163,234)	(730,010)
Receivables		(1,214,854)	(689,077)
Payables		510,388	(338,545)
		<u>1,707,205</u>	<u>(1,773,180)</u>
Cash from operations/(used in) pre-operating activities		(10,225)	(13,390)
Employees' terminal benefits paid		<u>1,696,980</u>	<u>(1,786,570)</u>
Net cash from operations/(used in) pre-operating activities			
INVESTING ACTIVITIES			
Murabaha commodity		(656,250)	-
Purchase of property, plant and equipment		(649,407)	(1,470,583)
Other non-current assets		(6,509)	15,384
		<u>(1,312,166)</u>	<u>(1,455,199)</u>
Net cash used in investing activities			
FINANCING ACTIVITIES			
(Repayment of)/proceeds from term loans		(915,664)	659,171
Loan from majority shareholder		714,954	2,155,200
		<u>(200,710)</u>	<u>2,814,371</u>
Net cash (used in)/from financing activities			
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		184,104	(427,398)
Cash and cash equivalents at the beginning of the year		<u>605,631</u>	<u>1,033,029</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	<u>789,735</u>	<u>605,631</u>

The attached notes 1 to 22 form part of these financial statements.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2010

	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Retained earnings SR'000</i>	<i>Total SR'000</i>
Balance at 1 January 2008	5,625,000	14,030	57,893	5,696,923
Loss for the year	-	-	(29,213)	(29,213)
Balance at 31 December 2009	5,625,000	14,030	28,681	5,667,710
Income for the year	-	-	1,672,779	1,672,779
Transfer to statutory reserve	-	167,278	(167,278)	-
Balance at 31 December 2010	5,625,000	181,308	1,534,181	7,340,489

The attached notes 1 to 22 form part of these financial statements.

Yanbu National Petrochemical Company (YANSAB) (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1 ACTIVITIES

Yanbu National Petrochemical Company (YANSAB) ("the company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4700009432 dated 14 Muharram 1427H (corresponding to 13 February 2006) in accordance with the Ministerial Resolution declaring the incorporation of the company dated 12 Muharram 1427H (corresponding to 11 February 2006). The company has obtained Industrial License number S/1367 dated 18 Rajab 1426H (corresponding to 1 September 2005). The company is 51% owned by Saudi Basic Industries Corporation (SABIC), (the majority shareholder), and 49% owned by others or publicly traded.

The company is engaged in the manufacturing of petrochemical products in accordance with company's Articles of Association and other Saudi Arabian applicable regulations. The company commenced commercial operations on 1 March 2010.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with financial accounting standards.

The significant accounting policies followed are as follows:-

Accounting convention

The financial statements have been prepared under the historical cost convention.

Cash and cash equivalents

Cash and cash equivalents comprise of bank balances, cash on hand, murabaha commodity and time deposits with an original maturity of three months or less. Murabaha commodity and time deposits with original maturity of three months or less are stated at cost, with accrued income being captioned under other receivables until realized. Income from murabaha or time deposits is accrued on time apportionment basis over the period from disbursement of funds to redemption date.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when the collection of full amount is no longer probable. Bad debts are written off as incurred.

Inventory

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials, consumables, spare parts and finished goods are primarily determined on a weighted average basis. Cost of inventories in work in process and finished goods include the cost of raw materials, labour and a appropriate portion of manufacturing overheads.

Property, plant and equipment/depreciation

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repair and maintenance are charged to income. Betterments that increase the value or materially extend the life of the related assets are capitalized.

Capital Work in Progress

Capital work in progress, representing new auxiliary projects and employees housing project, is recorded at cost. Included in such costs are the costs of material, construction, installation and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets comprises of:

Pre-operating expenses

Pre-operating expenses are charged to statement of income unless attributable future benefits are determined in which case these will be amortised using the straight line method over the shorter of seven years or the estimated useful lives, commencing on the beginning of commercial operations of 1 March 2010.

Deferred charges

Deferred charges relate to financial, legal advisory and arrangement fees for obtaining long term financing being used to partially finance the construction of the company's plants. These fees are amortised over the period of long term financing arrangements. The amortization portion that falls within the construction period is capitalised as part of capital work in progress, the amortization expense was charged to statement of income when the Company commenced its operations.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for the goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognized when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Employees' terminal benefits

Provision is made for amounts payable under the Saudi Arabian labour law and company's policy applicable to employees' accumulated periods of service at the balance sheet date.

Employees' saving scheme

The company manage a Saudi employees' saving scheme. Saudi members' contributions to the scheme are transferred to a bank account separate from those of the company. In addition, the company contributes to the scheme. Company's contributions to saving scheme are taken to statement of income.

Revenue recognition

Sales represent the invoiced value of goods shipped and services rendered by the Company during the year, net of the discount allowed and returns. Generally, sales are reported net of marketing and distribution expenses incurred in accordance with marketing and agreements.

Selling and general and administration expenses

Production costs and direct expenses are classified as cost of sales and year end inventory. All other expenses comprising selling and distribution expenses not capable of being deducted from sales are classified as general and administration expenses.

Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income at year end.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease period.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

3 CASH AND CASH EQUIVALENTS

	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Murabaha commodity and time deposits	738,750	585,000
Current accounts	50,985	20,631
	<u>789,735</u>	<u>605,631</u>

Murabaha commodity and time deposits are maintained with local and foreign banks and matures within three months.

4 MURAHABA COMMODITY

Murabaha commodity is maintained with local banks with a maturity of over three-months.

5 ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES

	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Amounts due from majority shareholder (see note 13 - b)	2,004,740	841,342
Advances to suppliers and contractors	-	7,381
Other receivables	75,046	16,209
	<u>2,079,786</u>	<u>864,932</u>

6 INVENTORIES

	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Finished goods	427,759	401,114
Spare parts and industrial catalysts	461,405	308,104
Goods in transit	11,887	28,599
	<u>901,051</u>	<u>737,817</u>

Yanbu National Petrochemical Company (YANSAB)
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

7 PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Building & Leasehold improvements Vehicles	33 years 4 years		Plant, machinery & heavy equipment Computers & software		Furniture Laboratory & safety equipment		10 years 5 years		Total 2009 SR'000
	Buildings & leasehold improvements SR'000	Plant, machinery & heavy equipment SR'000	Furniture SR'000	Computers & software SR'000	Vehicles SR'000	Capital work in progress SR'000	Laboratories & safety equipment SR'000	Computers & software SR'000	
At the beginning of the year	-	-	-	-	-	18,575,835	-	-	18,575,835
Additions	10,562	474,890	861	7,806	1,780	97,950	1,017	7,806	649,806
Transfers	164,073	18,068,075	11,157	55,648	-	(18,350,558)	41,096	-	-
Disposals	-	-	-	-	(425)	-	-	-	(425)
At the end of the year	174,635	18,542,965	12,018	63,454	1,355	323,227	42,113	63,454	19,225,216
Depreciation									
At the beginning of the year	-	-	-	-	-	-	-	-	-
Charge for the year	4,410	772,177	1,001	10,576	747	-	7,019	10,576	799,521
Transfers	-	-	-	-	(438)	-	-	-	-
Disposals	-	-	-	-	(26)	-	-	-	(26)
At the end of the year	4,410	772,177	1,001	10,576	283	-	7,019	10,576	799,495
Net book amounts:									
At 31 December 2010	170,225	17,770,788	11,017	52,878	1,072	323,227	35,094	52,878	18,425,721
At 31 December 2009	-	-	-	-	-	18,575,835	-	-	18,575,835

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

7 PROPERTY, PLANT AND EQUIPMENT (continued)

- a) The plants are situated on land leased from the Royal Commission, Yanbu, for 35 Hijra years commencing 1 Dhul Al-Hija 1426 H (corresponding to 1 January 2006). The lease is renewable for further similar periods at the option of the parties.
- b) Included in property, plant and equipment are assets of net book value amounting to SR 2,775 million (2009: Nil) held under finance lease arrangements with certain banks (note 12).

8 INTANGIBLE ASSETS

	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Pre-operating expenses (see note "a" below)	176,191	200,000
Deferred charges (see note "b" below)	98,059	109,595
	<u>274,250</u>	<u>309,595</u>

a) Pre-operating expenses

These represent a contribution of SR 200 million to the Centennial Fund and Higher Plastic Institute that will financially support small and medium sized projects in the related industry. Pre-operating expenses are amortized using the straight line method over the shorter of 7 years or their estimated useful life, from the commencement of commercial operations. The amortization of pre-operating expenses started on 1 March 2010.

b) Deferred charges

These represent financial legal advisory and arrangement fees totalling SR 143.2 million, relating to long term financing arrangements to finance the partial construction of the company's plant. These fees were included in the initial recognition of the related financing arrangements and are being amortized, using the effective interest rate, over the period of long term financing agreements. The amortized portion relating to the construction period amounting to SR 35.6 million as at 28 February 2010 is capitalized. Amortization for the period from 1 March 2010, date of commencement of operations, to 31 December 2010 is charged to the statement of income.

9 ACCOUNTS PAYABLE

	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Suppliers and contractors	12,515	166,271
Amount due to majority shareholder and a related party (note 13)	243,812	109,538
	<u>256,327</u>	<u>275,809</u>

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

10 ACCRUALS AND PROVISIONS

	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Accrued expenses	657,356	317,699
Amounts due to majority shareholder and related parties (note 13)	339,303	129,940
Zakat payable	40,289	-
Other payables	21,143	40,293
	<u>1,058,091</u>	<u>487,932</u>

11 TERM LOANS

Term loans comprise of:

	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Public Investment Fund (PIF) (see note (a) below)	3,401,062	3,801,187
Commercial and Export Credit Agencies (ECA) loans (see note (b) below)	5,364,104	5,670,060
Financing facilities (see note (c) below and note 12)	-	2,984,970
	<u>8,765,166</u>	<u>12,456,217</u>
Less:		
Current portion for long term loans (see notes (b) and (c) below)	(724,624)	(915,717)
	<u>8,040,542</u>	<u>11,540,500</u>

- a) The PIF term loan obtained in 2007 to finance the partial construction of the plants is limited to SR 4,001 million. The term loan carries charges at commercial rates and is repayable in equal semi-annual instalments of SR 200 million. The first instalment was paid on 31 December 2009, and the last instalment is payable on 30 June 2019.
- b) During 2007, the above loans obtained were from a consortium of banks in three loans, of which two loans limited to SR 5,948 million and guaranteed by Export Credit Agencies (ECA), Servizi Assicurativi Del Commercio Estero and Export Credits Guarantee Department (ECGD) to finance the partial construction of plants and working capital. The loans which carry commission at commercial rates are repayable in semi-annual variable instalments with the first instalment payable on 30 June 2009 and the last instalment payable on 30 June 2018.
- c) In previous periods, the financing facilities represented advance payments received by the company from a consortium of banks ("Original Facility Participants") to finance the partial construction of the plants. The company has entered into financing agreement with the Original Participants of Financing Facility limited to SR 3,176 million. Under the financing agreement, a portion of the project equivalent to their portion of project cost at the completion of withdrawal date (22 November 2010) was delivered to the Original Facility Participants and then leased back (under Ijara arrangements) to the company (see note 12).

The term loans are secured against the proceeds of project. In addition, the company has signed an Equity Support, Subordination and Retention Agreement with the majority Shareholder (SABIC) under which SABIC shall maintain its ownership in Yansab at 51% for the life of the loans.

Yanbu National Petrochemical Company (YANSAB)
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

12 OBLIGATION UNDER IJARA FINANCING ARRANGEMENTS

	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Obligation under Ijara financing arrangements	2,775,387	-
Less: The current portion of obligations under Ijara financing arrangements	(222,285)	-
	<u>2,553,102</u>	<u>-</u>

In accordance with supply agreement a portion of the project equivalent in amount to the share of Original Facility Participants in Financing Facility as at completion of withdrawal date of 22 November 2010 amounting to SR 2,775 million has been transferred to Yanbu Asset Ijara Company Limited (Company owned by Original Participants). In accordance with Ijara arrangements the last instalment is repayable on 30 June 2018. The commercial rates on obligation under Ijara financing arrangement is computed on effective interest rate basis.

The minimum Ijara principal for the five years subsequent to 31 December 2010 are as follows:

	<i>SR'000</i>
2011	222,285
2012	317,550
2013	357,244
2014	365,182
2015	431,868
Thereafter	1,081,258
	<u>2,775,387</u>

Yanbu National Petrochemical Company (YANSAB)
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

13 RELATED PARTY TRANSACTIONS AND BALANCES

The following are details of major related party transactions during the year for the year end 31 December:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transaction</i>		<i>Balance</i>	
		<i>For the year ended</i>		<i>At 31 December</i>	
		<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
		<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<i>Amounts due from related parties</i>					
Saudi Basic Industries Corporation (SABIC) – (majority shareholder)	Pre-commercial operation product sold and sales during the operations	6,338,373	997,168	1,905,248	808,949
	Advances for purchase of materials, product sales and other transactions	67,100	8,117	99,492	32,393
	Long term advance for freight charges	-	-	7,500	7,500
<i>Affiliates</i>	Sale of products	77,311	-	-	-
	Others	8,132	-	6,645	-
				2,018,885	848,842
<i>Amounts due to related parties</i>					
Saudi Basic Industries Corporation (SABIC) – (majority shareholder)	Payments on behalf of the company and other services rendered by the majority shareholder	(1,340,532)	(463,008)	(518,348)	(196,519)
	Loan from majority shareholder	(714,955)	(2,155,200)	(2,870,154)	(2,155,200)
<i>Affiliates</i>	Others	(248,687)	(213,818)	(64,767)	(19,945)
				3,453,269	(2,371,664)

a) The company obtained a loan from the majority shareholder in accordance with the retention of shareholding and support agreement with the majority shareholder (SABIC). The term loan which carries borrowing charges at commercial rates is fully repayable within three years commencing on the date of withdrawal and the first instalment is due on 30 June 2012.

Yanbu National Petrochemical Company (YANSAB)
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

13 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

- b) The balance of advances from majority shareholder comprises advances made during ordinary course of business for the purchase of material, amounts due for product sales under pre-marketing arrangements and sale of products during pre-commercial production test runs.

14 SHARE CAPITAL

The authorized, issued and fully paid share capital of the company is divided into 562.5 million shares of SR 10 each.

15 STATUTORY RESERVE

As required by Saudi Arabian Regulations for Companies the company must set aside 10% of net income for the year until it has built up a reserve equal to 50% of the capital. The company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The company transferred 10% of the net income for the year ended 31 December 2010.

16 GENERAL AND ADMINISTRATION EXPENSES

	<i>31 December 2010 SR'000</i>	<i>31 December 2009 SR'000</i>
Research and development expenses (see note below)	117,701	-
Salaries and benefits	4,643	19,914
Training and trainees cost	-	169
Other expenses	728	9,130
	123,072	29,213

In accordance with the contract with the majority shareholder a fixed percentage of sales is accrued for freight services.

Yanbu National Petrochemical Company (YANSAB)
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2010

17 ZAKAT

Charge for the year

The zakat charge consists of:

	2010 SR	2009 SR
Charge for the year	<u>40,289</u>	<u>-</u>

The provision is based on the following:

	2010 SR	2009 SR
Shareholders equity	5,667,710	5,696,923
Provision for employees' terminal benefits transferred	78,599	78,823
Book value of long term assets (net of related financing)	(4,366,567)	(5,903,520)
	<u>1,379,737</u>	<u>(127,774)</u>
Net zakatable income/(adjusted loss) for the year	<u>231,807</u>	<u>(34,759)</u>
Zakat base	<u>1,611,544</u>	<u>-</u>

The differences between the financial and zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable income/(adjusted loss).

Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (the DZIT) up to 31 December 2008. Zakat assessment for the year ended 31 December 2009 has not yet been raised by the DZIT.

18 RISK MANAGEMENT

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of the financial instruments. The company is subject to interest rate risk on its interest bearing liabilities namely bank deposits and term loans.

In compliance with the requirements of loan agreements the company has entered into hedge arrangements with local and foreign banks to manage interest rate risks associated with term loans. Under the arrangement the company pays fixed interest rate and receives floating interest rate for a portion of the loan amounting to SR 6,319 million (US Dollars 1,685 million) (2008: SR 6,690 million) (US Dollars 1,784 million).

On the other hand, the company is not subject to interest rate risk on murabaha commodity as it is commission free. However, the fair value or murabah commodity may be affected by current market forces including interest rates.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The company manages its liquidity risk by ensuring that bank facilities are available.

18 RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The company is subject to fluctuations in foreign exchange rates in the normal course of its business. The company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year. As Saudi Riyals is pegged to US Dollar balances do not represent any significant currency risk to the company.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company seeks to limit its credit risk by selling most of its product to majority shareholder i.e. SABIC. Such arrangement completely limits credit risk with respect to customers and other financial assets of the company.

19 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The company's financial assets consist of cash and cash equivalents, advances to suppliers, receivables and other receivables, its financial liabilities consists of payables and accruals, term loans and obligation under Ijara arrangements. The fair values of financial instruments are not materially different from their carrying values.

20 COMMITMENTS

The directors have approved future capital expenditures amounting to SR 62.4 million for the fiscal year ending 31 December 2011 (2010: SR 36.7 million)

21 LEASE COMMITMENTS

The following are the minimum future lease payments under irrevocable operating leases:

	<i>2010</i> <i>SR' 000</i>	<i>2009</i> <i>SR' 000</i>
Within one year	51,982	51,982
1 – 5 years	106,705	146,942
Thereafter	70,999	82,744
	<hr/> 229,686 <hr/>	<hr/> 281,668 <hr/>

22 CONTINGENCIES

As at 31 December 2010 the company has outstanding letters of guarantee for SR 39 million (2009: SR 44 million).